telephony

SEPTEMBER 10, 1982

C8700-1 9/15/82

THE JOURNAL OF TELECOMMUNICATIONS SINCE 1901

MARKETING ISSUE: Eleven exclusive articles on the art and science of marketing telecommunications equipment and services begin on p.12

TY
DC20014CONGLIKENYJ FCGB22341C
J KENNEDY
CONGRESSIONAL INFORMATION SERV
STE 800
4520 EA WEST HIGHWAY
WASHINGTON DC 20014

BEST AVAILABLE COPY

September 10, 1982
VOLUME 203
No. 11

telephony

(ISSN 0040-2656)

COVER STORY: MARKETING ISSUE
The marketing role 11
As We See It: To market, to market to buy everything—marketing opportunities are plentiful for those who will seize them

Learning the abc's of telecom marketing 12
First part of an exclusive TELEPHONY series which will examine telecom marketing in depth
Nicholas J. Mammana

Telecom marketing—British style 18
The liberalization trend has hit the U.K., and it is a change heavily laden with marketing implications
R.J. Raggett

Telcos in competition—with each other 30
Continental won a big contract in competition with other firms, including a telco. It's a new era!
David Wonderling

Trade fairs can open doors to new markets 34
Trade fairs are good vehicles to help firms penetrate new, geographically defined markets
Catherine Baker

Account execs get into the winner's circle 42
Today, account execs are business consultants with more opportunities and more responsibilities
Robert H. Digneo

48 Telcos need a more competitive spirit
The new era in telecommunications demands that telcos change their fundamental attitudes or face unpleasant consequences
Donald W. Weber

52 Telecom marketing during the recession
Telcos must deal with these trying economic times which hit marketing efforts particularly hard
Martin W. Fletcher

56 Heal thyself!
Telecom companies work hard on everyone else's internal communications but neglect their own
Kathleen Hopfner and Peter Lichtenstein

62 The distributor's role in telecom marketing
Telecom distribution channels have changed to meet the needs of a transformed industry
Terry D. Bryan

66 Telemarketing: the necessary ingredient
Telemarketing provides new and exciting possibilities for all marketers
Bernard Cohen

78 Quick quotes raise telco's revenues
Providing time and charge quotations can be profitable business for enterprising telcos
D.L. Russell

DEPARTMENTS
Advertisers' Index **120**
Challenge and Response **122**

82 New Products
71 Reader Service Card

Published weekly by TELEPHONY PUBLISHING CORP., 55 E. Jackson, Chicago, IL 60604
Telephone 312/922-2435; TWX 910 221 1058

European Bureau, 136 Broomfield Rd., Chelmsford, Essex CM1 1RN, England;
Telephone Chelmsford (0245) 58257;
Telex 995801 GLOTLX-G.

*Except twice weekly the 2nd week of September and three times during the month of December. Officers of Telephony Publishing Corp. are Dan S. Fargo, President; H.D. Fargo, Jr., Vice President & Treasurer; Leo Anderson, Del Myers and Ed Robinson, Vice Presidents. Postmaster: Please send form 3579 to Subscription Dept., TELEPHONY, 55 E. Jackson Blvd., Chicago IL 60604.
Second class postage paid at Chicago, Ill., and at additional mailing offices. Single copies (payable in advance) U.S. $3.00 ea., issues over 2 years old $3.50 ea. Outside U.S. add $1.00 ea.

Subscriptions: $26 one year. Outside U.S. add $19 per year. Subscription rates apply to employes of operating telephone companies; telephone consultants; contractors; interconnect co's; specialized common carriers; military govt assn's; private communications users; schools; libraries. All others $32 one year. Outside U.S. add $19 per year. Change of address: include old address as well as new address. Attach issue label if possible. Allow 4 weeks for change to become effective.

Copyright 1982 by Telephony Publishing Corp.

Telecom marketing during the recession

Tight money and high interest rates—every businessman knows their effects. But telecommunications companies also must realize how the state of the economy can affect their marketing strategies

MARTIN W. FLETCHER

A COMPARATIVE REVIEW of the effect of the last major recession of 1974-75 on the U.S. telecommunications industry by Dataquest, Inc., shows that usage-related services are concurrent or leading economic indicators, while non-usage-related services lag behind the economy by as much as 1 year.

In the present environment, large PBXs (private branch exchanges), high-speed modems and small data multiplexers should show growth even under the conditions of a prolonged recession. A turnaround in the U.S. economy should be favorable to the markets for small PBXs, electronic featured key systems and large data multiplexers.

The following available statistics and estimates provide a pattern for comparing the effects of the recession on the telecommunications industry for: total telco revenues; long distance revenues and calls; and local revenues and calls.

The annual growth in total U.S. telco revenues over the period from 1971 through 1978 is shown in Table 1, and is compared with the annual growth of real gross national product (GNP) for the same years. The table highlights the years 1974 and 1975, which some analysts have classified as depression years for the U.S. economy. Total telecom revenues continued to grow, though there was a minor decline in the rate of growth. By comparison, U.S. factory shipments of passenger automobiles, for example, declined 24% in 1974, and a further 8.4% in 1975.

For 1981, total U.S. telco revenues for communications services were at the $64 billion level, approximately 12% above the previous year's mark.

The annual growth of U.S. long distance (interstate and intrastate toll) revenues for the period from 1971 through 1978 is shown in Table 2. The growth in calls provides unit growth, and allows comparison without the factors in revenues that involve tariff increases. The numbers for calls shown in Table 2 include international calls, but exclude non-revenue producing calls such as directory information. The figures show that long distance calling, which is charged according to usage in North America as elsewhere, tends to be a concurrent—or even slightly leading—economic indicator.

For 1981, U.S. long distance revenues are estimated to be at the $34 billion level, with growth of more than $4 billion over the previous year. American Telephone & Telegraph Co. (AT&T) received $30.2 billion in long distance revenues in 1981.

AT&T's increase in long distance revenues of just below $4 billion was approximately five times the combined gross revenues, not increases, of its competitors in intercity services. Total long distance calls are estimated to be approximately 20.5 billion in 1981.

The percentage growth in U.S. local revenues, and even more specifically local calls, show that this sector responds to downturns in the economy with a 6-month to 1-year lag (Table 3). In the United States the majority of local calls are still made on a flat rate basis, although this is slowly changing. Thus, negligible savings are incurred by reducing local calls. However, savings can be made by reducing installed tariffed equipment. Evidence for this conclusion is seen in Table 4, which shows that a reduction occurred in the rate of growth of telephones in service, but only when the recession was in its second year.

The implications of these data relative to revenues, calls and installations are as follows:

- Telephone usage is a concurrent,

Continued on page 54

Martin W. Fletcher is Vice President of Dataquest, Inc., Cupertino, Calif. This article is adapted with permission from a Dataquest Research Newsletter, copyright June 1982.

Table 1

Total telco revenues (United States)

Year	Growth over previous year: Revenues	Real GNP
1971	10.1%	3.2%
1972	13.4%	6.1%
1973	14.9%	5.5%
1974	11.5%	-1.4%
1975	10.5%	-1.3%
1976	14.1%	5.9%
1977	11.3%	5.3%
1978	12.6%	4.4%

Revenues CAGR 1970-78: 12.3%

Sources: Federal Communications Commission, Federal Reserve Board

and possibly slightly leading, indicator of general economic activity. Specifically, usage appears to lead when the economy is coming out of a recession.

• Telephone subscriber equipment commitments follow general economic activity to the extent that unless a recession is 1 year or longer in duration, the annualized effects are insignificant.

Nevertheless, the 1974-75 recession did cause significant downturns in the business of the equipment manufacturers. Manufacturers at that time mainly supplied telcos. The telcos reduced their inventory levels so that the recession's impact for them was minimal. However, this reduction in inventories resulted in significantly less sales for manufacturers, whose shipments grew only moderately even as the recession ended and telcos gradually rebuilt their inventories to pre-recession levels.

The current recession's effects in the first 4 months of 1982 so far have not had as significant an impact on equipment manufacturers as they did in 1974-75. More than 50% of the sales of PBXs in the U.S. market now reach the end users either through interconnect distributors, or directly from manufacturers. The interconnect distributors normally do not carry inventories, and the direct sale manufacturers are their own beneficiaries of reductions in inventories. Thus the recessionary effect in 1982 is far less pronounced for equipment manufacturers than it was in 1974-75. A recent survey of representative manufacturers, sales representatives, wholesale distributors and interconnect distributors sought to assess the effects on various sectors of the telecom and datacom terminal equipment markets for the first 4 months of 1982.

Shipments in PBX lines are estimated to be 7% to 10% ahead of shipments in the same period of 1981. Shipments of systems with fewer than 100 lines are estimated to be 5% to 8% above 1981's figures. Three manufacturers—American Telecom, Mitel and Siemens, all competitively priced below other market contenders—registered growth significantly above the average. None of these companies had reduced its factory prices at the time of the survey, and all three sell the majority of their systems in the United States through wholesale distributors.

The market for PBXs of 100 to 400 lines is estimated to have grown in the first 4 months of 1982 at 4% to 7% above its 1981 rate. This is the sector with the most significant competitors, and also is the sector in which most penetration has already been made by interconnect distributors and by replacement of electromechanical equipment by electronic equipment.

PBXs of more than 400 lines are estimated to be showing by far the best growth over the 1981 rate. The growth is in a range from 15% to 20%. This line-size sector is benefiting from centrex replacement, and many large, multimillion dollar replacement orders already have been placed in 1982. Northern Telecom appears to be benefiting significantly from this growth, with NEC and Rolm also enjoying growth. Large PBXs have always been negotiable in price, and the present economy is exerting even more pressure on the profit margins of higher-cost manufacturers.

Approximately 515,000 key telephone systems (KTSs) were shipped in 1981 for a total OEM (original equipment manufacturer) value of $520 million, and an end user value (on an "if-sold" basis) of $2.1 billion. It is estimated that 110,000 featured systems were shipped to the U.S. market in 1981 for an OEM value of $220 million. These systems have such features as voice announce, line privacy, paging access and toll restriction. Some fully featured systems also have least-cost routing and message detail recording. Growth in this market is estimated to be 15% to 25% above 1981 for the first 4 months of 1982. TIE/communica-

Continued on page 55

Table 2

Telco long distance revenues and calls (United States)

Year	Growth over previous year: Revenues	Calls
1971	11.1%	5.3%
1972	13.2%	10.7%
1973	18.5%	8.4%
1974	11.0%	7.1%
1975	11.5%	8.1%
1976	16.2%	7.6%
1977	12.9%	10.9%
1978	15.1%	12.7%

Revenues CAGR 1970-78: 13.7%
Calls CAGR 1970-78: 8.9%

Sources: Federal Communications Commission
American Telephone & Telegraph Co.
Dataquest Inc. estimates

Table 3

Telco local revenues and calls (United States)

Year	Growth over previous year: Revenues	Calls
1971	9.4%	5.5%
1972	12.8%	5.8%
1973	12.7%	5.6%
1974	12.1%	5.5%
1975	9.5%	2.7%
1976	12.8%	5.1%
1977	9.6%	6.5%
1978	9.8%	5.7%

Revenues CAGR 1970-78: 11.0%
Calls CAGR 1970-78: 5.3%

Sources: Federal Communications Commission
Dataquest Inc. estimates

Check No. 40 on Reader Service Card

Continued from page 54

tions exceeded this growth.

Almost 80% of the KTSs shipped in 1981 were non-featured, of the 1A1 and 1A2 types. Of these 405,000 systems, more than 50% were installed behind PBXs. The total 1981 U.S. OEM market value for all non-featured systems was $320 million. Sales of these systems are flat to slightly negative compared with 1981 figures.

The 1982 U.S. market for datacom equipment continues to benefit from the cost-saving features offered by high-speed modems and data multiplexers.

The low-speed modem market remains essentially flat. It would have shown a significant decline, except for the growth of the personal computer market.

The high-speed modem market in the first 4 months of 1982 is estimated to be 25% to 35% higher than the 1981 market. Codex and Paradyne both had growth above this average. This sector of the datacom market includes data multiplexers concentrating eight lines or less. Growth so far in this market in 1982 is 30% to 40% above 1981, with Micom Systems still holding the lion's share of the market.

The market for large multiplexers used with larger mainframes and extensive small computer networks is estimated to be growing at 15% to 20% over last year's figures. Codex and Timeplex have had above average growth.

Telecommunications equipment and services markets exhibit significant recession resistance. However, a prolonged and somewhat deeper recession would reduce growth by 10% to 15% in most markets. Nevertheless, the large PBX, high-speed modem, and small data multiplexer sectors of these markets can be expected to retain some growth even under this pessimistic scenario. No sector, however, is likely to grow in a depression. In the event of economic improvement in the U.S. economy in the second half of calendar year 1982, small PBXs, electronic featured key systems and large data multiplexers would be the markets which would demonstrate new growth the earliest. □

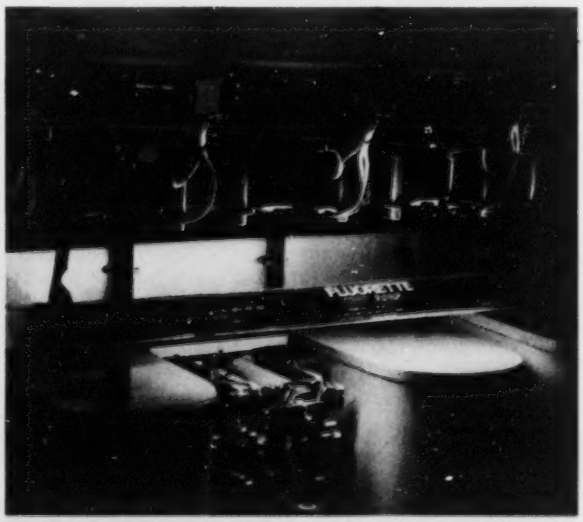
Table 4
Telephones in service
(United States)

Year	Growth over previous year
1971	4.1%
1972	5.2%
1973	5.0%
1974	4.2%
1975	3.5%
1976	4.2%
1977	4.4%
1978	4.3%
CAGR: 4.4%	

Source: Federal Communications Commission

"NOW STANDARDIZED BY THE TELEPHONE INDUSTRY."

CMC'S 3985 FLUORETTE IS BETTER THAN CONVENTIONAL, INCANDESCENT WORKLIGHTS.



CMC's new 3985 Fluorette will make light of your troubles. This cool operating, lightweight fluorescent worklight is practically indestructible. Best of all you can use it around any type of equipment.

The Fluorette is insulated, so its safe for you and the equipment. It operates from the 48V DC at the C.O., and emits a high-frequency, glare-free white light that you can direct onto the work area. Its low price and low power consumption will save both money and energy.

CMC 3300 E. SPRING STREET, LONG BEACH, CA 90801
TELEX 65 6440 • CMC LGB • 213 426 8345

Check No. 29 on Reader Service Card